

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:2661  
ANSWERED ON:12.03.2010  
INVESTMENT BY BANKS IN MF  
Paranjpe Shri Anand Prakash

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Reserve Bank of India (RBI) has expressed its concern over huge investments by banks in the Mutual Funds (MF) ;
- (b) whether the Government has assessed the impact of this venture on the health of banking industry;
- (c) if so, the details thereof; and
- (d) the corrective action taken in the matter?

**Answer**

The Minister of State in the Ministry of Finance(Shri Namo Narain Meena)

(a) to (d): Reserve Bank of India (RBI) had observed that banks' investments in Mutual Funds (MFs) have risen significantly during last few years as they find investments in MFs as an attractive avenue to earn high returns particularly when they have surplus liquidity. Banks' investments in MFs are of two types: investment in equity oriented MF and investment in Debt oriented MFs. As regards banks' investment in equity oriented MFs, banks cannot make investment in them in an unrestricted way as these are reckoned for compliance with capital market exposure ceiling for investments of 20 per cent of their net worth, as on March 31 of the previous year. However, investment in debt oriented MFs are not restricted.

# RBI has specified a limit of 10 percent for investment in unlisted non Statutory Liquidity Ratio (SLR) investments. However, since debt oriented MFs have sizeable investments in unlisted / thinly traded corporate debt instruments, by allowing banks' to have unlimited investment avenues in debt oriented MFs, this instruction may indirectly be circumvented

# Large investment by banks in the Mutual Funds may expose them to liquidity problems as and when the Mutual Funds face redemption pressure during tight market conditions.

# Banks' large investments in such sector lead to slow down in banks lending to the productive sectors towards credit growth.

On the request of RBI, most of the Scheduled Commercial Banks have informed that they have taken necessary steps to act as self regulators and placed Board approved limits on their exposure to debt-oriented MFs. Presently, RBI is reviewing the measures initiated by banks in this regard and also analyzing the movement of funds between banks and MFs.